

ORIGINAL

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997 :

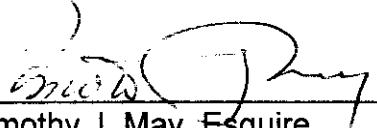
Docket No. R97-1

NOTICE OF PARCEL SHIPPERS ASSOCIATION  
CONCERNING ERRATA TO THE DIRECT TESTIMONY OF  
WITNESS JAMES V. JELLISON (PSA-T-1)

The Parcel Shippers Association (PSA) hereby files revised pages 4, 6, 7, 23, 27, 28, and 30 of the Direct Testimony of James V. Jellison, as attached hereto.

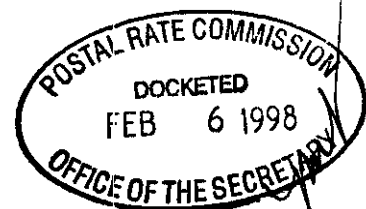
1. Page 4 is revised to correct the volume of parcels reported to be sent by survey respondents using carriers other than USPS and UPS.
2. Page 6 is revised to correct the number of survey respondents who stated that they either currently qualified for or would do what is necessary to qualify for the DDU discount. The testimony is revised to show that the correct number is 20 of 30 respondents rather 21 of 30 respondents.
3. Page 7 is revised to show the actual number of total parcels shipped by respondents. The revision is necessary because the testimony failed to include parcels that were shipped by respondents using carriers other than USPS and UPS.
4. Page 23 is revised to correct a misprint to change the word "average" to "averaging."
5. Pages 27, 28, and 30 are changed to reflect a correction in USPS witness Crum's cost adjustments to parcel costs so that his adjustment is limited to an adjustment based solely on Regular Commercial Standard (A) flats and parcels.

Respectfully submitted,

  
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Dated: February 6, 1998

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- Twenty-four (24) respondents used both USPS and UPS for their Standard (B) parcel post to some extent.
- Of the thirty (30) who reported using UPS, fifteen (15) reported having special contract rates for their shipments.
- Sixteen (16) respondents reported shipping 25,343,,000 parcels by a carrier other than USPS and UPS. This represents 9.1% of the total category of over one (1) pound parcels, which is up from the results of previous surveys conducted over the years, which typically reported less than one percent (1%) of total parcels shipped by a carrier other than USPS or UPS.

**A. Degree Of Presorting And Mail Preparation**

The survey also asked a series of questions attempting to ascertain the current degree of presorting and preparation, and the willingness of members to do more worksharing or to use a consolidator in order to qualify for the Postal Service's proposed drop shipping discounts. Those results show the following:

**1. OMBC Discount**

- Of twenty-six (26) who responded to whether they are currently eligible for the OMBC discount, seventeen (17), or sixty-five percent (65%) ,responded that they were.
- Of the ten (10) who responded that they were not eligible, four (4) stated that they would do the work in order to qualify for the discount and six (6) said they would not. In addition, there were four (4) respondents who report that they currently qualify for a part of their shipments and who would do the necessary work to qualify the remainder of their shipments in order to earn the discount.

4. DDU Discount

Of thirty (30) respondents, only four (4) indicated that they would currently qualify for the DDU rates. These are the same four (4) who also indicated they would currently qualify for the DSCF rates. Of the twenty-six (26) who do not currently qualify, seven (7) said that they would do the work to become eligible and nineteen (19) said they would not. Of the nineteen (19) who said they would not do the preparation work, nine (9) stated they would be willing to use a consolidator. Thus, out of a total of thirty (30) respondents, twenty (20), or two-thirds, either currently qualify or would do whatever is necessary, including using a consolidator to qualify.

**B. Use Of Delivery Confirmation**

The survey also queried respondents whether they would use the manual and electronic delivery confirmation service being offered. Only three (3) of thirty-one (31) respondents said that they would use the manual service; however, twenty-four (24) of thirty-three (33), almost seventy-three percent (73%), said they would use the electronic confirmation service.

**C. Size Increase and Balloon Surcharge**

The survey also questioned members about the impact of the increase in length and girth over 108", with the ten percent (10%) restriction, and the balloon parcel surcharge.

Sixteen (16) of the thirty-three (33) respondents said that they did have parcels that exceeded 108" in length and girth and that, if the size expansion is approved,

thirteen (13) of the sixteen (16) would switch their parcel business to USPS. About 4.4% of their parcels are reported to exceed the current 108" limit.

Also, sixteen (16) out of the thirty-two (32) respondents indicated that they would be impacted by the proposal to charge a minimum rate for balloon parcels. Also, five (5) of those sixteen (16) report that they would switch their business away from USPS to a competitor if this balloon charge is approved.

Of more than passing interest, this survey does show a significant shift in the two carriers' market shares for these respondents. In prior surveys UPS always emerged as the overwhelmingly dominant carrier of our members' parcels. As can now be seen, at least for these respondents, while UPS is still the major carrier, USPS has a 44.8% share. This must be attributed in part to improved parcel post service, and, more particularly, to the competitive prices that USPS offers for residential delivery compared to UPS residential delivery rates, which are substantially higher, for those who do not have special contract rates, than the commercial rates. This does not mean that USPS is in a position to challenge UPS for a more significant market share. It merely means that many of those who responded to the survey, and who are predominantly residential shippers, have switched their patronage away from UPS to the Postal Service. Nevertheless, UPS remains, for most of the market, the overwhelmingly dominant carrier.

It is also significant to note that the thirty-five (35) respondents report that their current total volume of parcel post shipped by USPS is 124,522,000<sup>1</sup>. That would

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<sup>1</sup> We have excluded the parcel post volumes reported by CTC, a consolidator, on the supposition that they have been largely double counted by being included in the report of other respondents.

correctly distinguish between the two. (Tr. 5/2342) Finally, the Postal Service made no effort to factor in the influence of weight on the cost of a parcel nor the amount of revenue that that parcel produced. Since the average parcel weighed 8 ounces, the Service conceded this necessarily meant there were hundreds of millions of parcels that weighed more than 8 ounces. (Tr. 5/2344-45)

The Postal Service has not even bothered to estimate the effect of the 10¢ surcharge on the cost coverage of Standard (A) parcels. The Postal Service dismisses this as unimportant because there are no cost coverage targets separately for parcels as distinguished from flats in Standard (A). Thus, the Postal Service admits that it does not even know whether the surcharge might create a higher cost coverage for Standard (A) parcels than for Standard (A) flats. At the same time the Postal Service agrees that it is possible that, and would not be surprising if, the averaging of cost difference between letters and nonletters was greater than the averaging of cost difference between flats and residual shape pieces. In other words, there could be an even more serious cross-subsidization problem between letters and nonletters than there are alleged to be between flats and parcels. This raises the question of why the Postal Service felt it was necessary to address the potentially less serious amount of cross-subsidization between flats and an insignificant portion of Standard (A), that is, parcels, which are not even separate rate categories, but at the same time ignore what could be a potentially more serious cross-subsidization issue between letters and nonletters, which are in fact two separate rate categories. (Tr. 6/2885)

Out of a total of 982,647,000 Standard (A) Parcels, 869,434,000, or 88-1/2%, of all the categories of parcels are regular for-profit. This category of parcels shows per piece costs of 51.3¢, compared to 18.2¢ for flats, or 33.1¢ per piece more, not the 40¢ per piece differential the Postal Service testimony speaks about. Witness Crum further adjusts parcel costs by reducing them by 7.3¢ per piece (Exhibit K, Table 7.) This represents .3¢ due to the deeper entry of flats and 7.0¢ because of the finer presort of flats. Limiting the adjustment to Regular Commercial Standard (A), the adjustment of parcel costs would only be 1.4¢. Thus, the actual commercial regular parcel cost would be 51.3¢ less 1.4¢, or 49.9¢. The parcel/flat cost difference would then be 31.7¢ (49.9¢ minus 18.2¢).

The Table also shows that the average per piece revenue from a flat is only 24.3¢ per piece, whereas the average revenue per piece for a parcel is 46.45¢, almost twice as much revenue. Thus, while a parcel may cost 31.7¢ more per piece, according to these numbers, it also earns 22.15¢ more per piece revenue for the Postal Service. The Table also shows that the average flat weights 3.74 ounces and the average parcel weights 8.9 ounces. Despite the Postal Service's contention, that there is no evidence that weight in Standard (A) is a significant cost causing factor, we suggest the opposite is obviously the case: that weight is every bit as distinct a cost causing factor as shape. We would also point out, however, that the Postal Service's rate structure takes account of that additional cost by charging more for that average parcel, in this case almost twice as much.

Thus, if we accept, for the sake of argument, that there is some common sense to the Postal Service's claimed cost numbers derived from Library Reference 146, when

seen in the perspective of the actual cost revenue relationships between Regular Rate Flats and Regular Rate Standard (A) Commercial Parcels, one is left with an actual discrepancy of around 9.55¢, a number close to the 10¢ the Postal Service is proposing in this case. The Postal Service, however, would have you believe that they are being inordinately generous in only passing through in the form of a surcharge one-quarter of the cost difference. In fact, the Postal Service is exacting slightly more than the actual difference in the cost revenue relationships of regular rate flats and commercial parcels.

The lumping together in this case of all categories, for-profit and not-for-profit, ECR as well as Regular, obfuscates the true picture of what the numbers demonstrate are cost/revenue discrepancies for the overwhelmingly predominant volume in Standard (A). Viewed from another aspect, if, for the base year, one adds in the 10¢ surcharge to the average revenues yielded on a commercial Standard (A) Regular Parcel, according to Postal Service data, that revenue yield would be 56.45¢ per piece versus an average cost of 49.9¢ per piece. In other words, a 3.45¢ surcharge would allow these parcels to cover their costs.

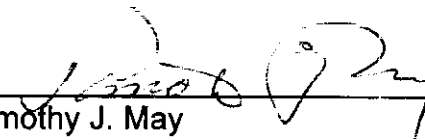
We would make the point that, while we object to separating out parcels from flats in Regular Standard (A) when there is no existing sub-class or rate category distinction, we most emphatically object to lumping together Regular Parcels with Parcels in three other rate categories and subclasses, that is, ECR Parcels, Non-Profit ECR Parcels, and Non-Profit Regular Parcels. These are all separate rate categories or subclasses, with separate and distinct costs and revenue yields. They should be

And finally, we do not think that the damage that will be caused by a 10¢ surcharge to that group of less than 1 billion Standard (A) parcels just so that some tiny relief be accorded to the over 26 billion pieces of Standard (A) flats is worth it. The estimated \$93.9 million in revenues that will be derived from the 10¢ residual shape surcharge could have benefited the average commercial flat in Base Year FY '96 by only .35¢ per piece. (Tr. 6/2739) In other words, we do not see how the Post Office justifies visiting rate increases in excess of 50% on certain Standard (A) parcel mailers, in order to have a reduction for Standard (A) flat mailers of an average of 1/3 of a cent per piece. (Tr. 6/2720) Again, the Service's own data show that only a 3.45 cents surcharge is needed in order to cover the costs of Standard (A) commercial parcels.



## CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

  
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Timothy J. May

Dated: February 6, 1998